

WHAT IS CLAIMED IS:

1. A method of structuring a performance-based participation certificate contract, comprising the steps of:

identifying a pool of assets;

5 identifying parameters for the assets;

identifying a manner of securing a guarantee fee for the contract;

issuing a security reflecting the parameters of the assets; and

resetting the guarantee fee for the security, based on realized performance of the assets, once every predetermined time period.

10 2. The method of Claim 1, wherein the guarantee fee G_t is defined as:

$$G_t = \text{Min} [\text{Max} (G_0 + \text{PPA}_t + \text{TPA}_t, \text{MinG}), \text{MaxG}]$$

and is based on the following parameters:

a base guarantee fee G_0 ;

a performance index PI_t ;

15 a price reset frequency;

a performance measurement PM_t dependent on the performance index PI_t ;

a permanent price adjustment PPA_t dependent on the performance index PI_t ;

a temporary price adjustment TPA_t dependent on the performance index PI_t ;

and

20 a maximum lifetime guarantee fee MaxG and a minimum lifetime guarantee fee MinG .

3. The method of Claim 2, wherein the base guarantee fee is based on the lowest guarantee fee currently charged for the assets.

4. The method of Claim 2, wherein the performance index is any publicly observable index that is correlated with credit risk.

5. The method of Claim 2, wherein the price reset frequency is one of a group consisting of:

- 5 an annual reset;
a semi-annual reset; and
a quarterly reset.

6. The method of Claim 2, wherein the performance measurement PM_t is defined as:

10 $PM_t = \text{Roundup} [(PI_t + PI_{t-1} + PI_{t-2} + PI_{t-3})/4] * [1/.01] - 1;$
wherein PI_t , PI_{t-1} , PI_{t-2} , and PI_{t-3} are performance indexes measured at different points in time.

7. The method of Claim 2, wherein the permanent price adjustment PPA_t is defined as:

15 $PPA_t = \text{Max} (PPA_{t-1}, PM_t * PPAF);$
wherein PPA_{t-1} is a previous permanent price adjustment, PM_t is a current performance measurement, and PPAF is a permanent price adjustment factor.

8. The method of Claim 2, wherein the temporary price adjustment TPA_t is defined as:

20 $TPA_t = PM_t * TPAF;$
wherein PM_t is a current performance measurement and TPAF is a temporary price adjustment factor.

9. The method of Claim 2, wherein the maximum and the minimum lifetime guarantee fees are lifetime limits on the guarantee fee.

10. The method of Claim 1, wherein the manner of securing future guarantee fee increases is one of a group consisting of:

- 5 varying an interest payment to a security holder as a guarantee fee varies;
retaining an excess servicing strip; and
securing future guarantee fees with a corporate guarantee.

11. The method of Claim 1, wherein the assets are multi-family mortgages.

12. The method of Claim 1, wherein the assets are any assets having
10 insufficient data to construct a robust predictor model.

13. A computer program product comprising a computer usable medium having control logic stored therein for causing a computer to structure a performance-based participation certificate contract, said control logic comprising:

5 first computer readable program code means for causing the computer to identify a pool of assets;

second computer readable program code means for causing the computer to identify parameters for the assets;

third computer readable program code means for causing the computer to identify a manner of securing a guarantee fee for the contract;

10 fourth computer readable program codes means for causing the computer to issue a security reflecting the parameters of the assets; and

fifth computer readable program code means for causing the computer to reset the guarantee fee, based on realized performance of the assets, once every predetermined time period.

14. The computer program product of Claim 13, wherein the guarantee fee G_t is defined as:

$$G_t = \text{Min} [\text{Max} (G_0 + \text{PPA}_t + \text{TPA}_t, \text{MinG}), \text{MaxG}]$$

and is based on the following parameters:

5 a base guarantee fee G_0 ;

a performance index PI_t ;

a price reset frequency;

a performance measurement PM_t dependent on the performance index PI_t ;

a permanent price adjustment PPA_t dependent on the performance index PI_t ;

10 a temporary price adjustment TPA_t dependent on the performance index PI_t ;

and

a maximum lifetime guarantee fee MaxG and a minimum lifetime guarantee fee MinG .

15 15. The computer program product of Claim 14, wherein the base guarantee fee is based on the lowest guarantee fee currently charged for the assets.

16. The computer program product of Claim 14, wherein the performance index is any publicly observable index that is correlated with credit risk.

17. The computer program product of Claim 14, wherein the price reset frequency is one of a group consisting of:

20 an annual reset;

a semi-annual reset; and

a quarterly reset.

18. The computer program product of Claim 14, wherein the performance measurement PM_t is defined as:

$$PM_t = \text{Roundup} [(PI_t + PI_{t-1} + PI_{t-2} + PI_{t-3})/4] * [1/.01] - 1;$$

wherein PI_t , PI_{t-1} , PI_{t-2} , and PI_{t-3} are performance indexes measured at different points in time.

19. The computer program product of Claim 14, wherein the permanent price adjustment PPA_t is defined as:

$$PPA_t = \text{Max} (PPA_{t-1}, PM_t * PPAF);$$

wherein PPA_{t-1} is a previous permanent price adjustment, PM_t is a current performance measurement, and PPAF is a permanent price adjustment factor.

20. The computer program product of Claim 14, wherein the temporary price adjustment TPA_t is defined as:

$$TPA_t = PM_t * TPAF;$$

wherein PM_t is a current performance measurement and TPAF is a temporary price adjustment factor.

21. The computer program product of Claim 14, wherein the maximum and the minimum lifetime guarantee fees are lifetime limits on the guarantee fee.

22. The computer program product of Claim 13, wherein the manner of securing future guarantee fee increases is one of a group consisting of:

varying an interest payment to a security holder as a guarantee fee varies;
retaining an excess servicing strip; and
securing future guarantee fees with a corporate guarantee.

23. The computer program product of Claim 13, wherein the assets are multi-family mortgages.
24. The computer program product of Claim 13, wherein the assets are any assets having insufficient data to construct a robust predictor model.
- 5 25. A method of structuring a credit enhancement contract, comprising the steps of:
- identifying a pool of assets;
 - identifying parameters for the assets;
 - identifying a manner of securing a credit enhancement fee for the performance-
- 10 based certificate contract;
- issuing a security reflecting the parameters of the assets; and
 - resetting the credit enhancement fee for the security, based on realized performance of the assets, once every predetermined time period.
26. The method of Claim 25, wherein the credit enhancement fee is a
- 15 guarantee fee.
27. The method of Claim 1, further comprising:
- providing a guarantor with reimbursement for a predetermined amount of initial loss on the performance-based certificate contract.